

MEMORANDUM

TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

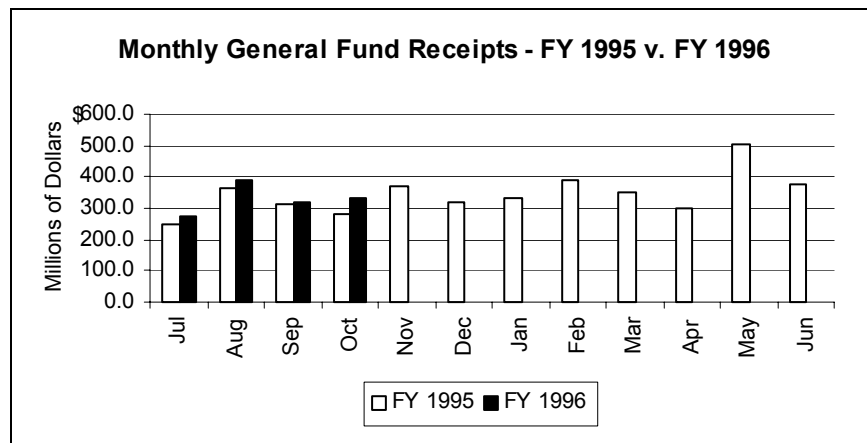
FROM: Dennis C. Prouty

DATE: November 1, 1995

General Fund Receipts Through October 31, 1995

The attached spreadsheet represents total FY 1996 General Fund receipts, with comparable figures for FY 1995. These can also be compared to the latest FY 1996 estimate that was set by the Revenue Estimating Conference (REC) on October 4, 1995.

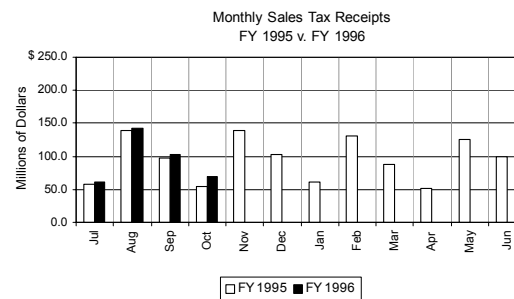
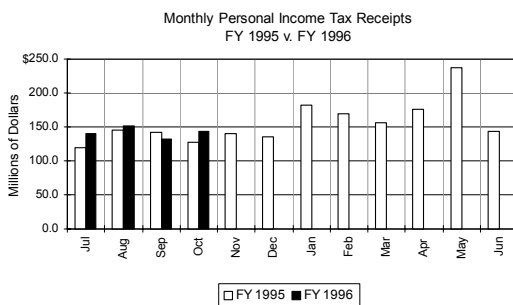
At the October meeting, the REC increased the FY 1996 General Fund estimate \$62.3 million to \$4.347 billion, which represents an increase of 4.7% over actual FY 1995 receipts. The REC established an estimate of \$4.476 billion for FY 1997, an increase of \$128.3 million (3.0%) compared to the current FY 1996 estimate. Total FY 1997 General Fund receipts net of refunds are projected to increase 3.2% compared to FY 1996.



Total year-to-date General Fund receipts for FY 1996 increased 8.6% over FY 1995. Tax receipts showed an increase of 7.9%. Personal income tax receipts increased 6.5%. Sales tax receipts were 8.6% higher than the previous fiscal year. Use tax increased 15.1% over FY 1995, and corporate income tax receipts showed a 22.9% increase.

Personal income tax receipts through the first four months totaled \$34.7 million more than the same period in FY 1995. Receipts in October were 13.5% higher than October 1994, largely due to a 72.3% increase in estimate payments. In FY 1995, September estimate payments were due on September 30. This year, those payments were received in October. In contrast, October receipts from withholding were 2.6% less in October 1994, in part a result of the change in withholding tables issued by the Department of Revenue and Finance in July. Year-to-date withholding receipts through October 1995 were 5.9% higher than the same period in FY 1995.

A significant share of the impact from tax law changes is not expected until the spring of 1996. Changes in pension taxation and the dependent credit (SF 69) are expected to have a total FY 1996 impact of \$48.6 million. Of this amount, only \$6.6 million (13.5%) is expected to impact receipts through the end of the calendar year. Thus, a disproportionate share (83.2%) will impact receipts (and refunds) in the second half of the fiscal year. Conversely, changes in the withholding tables impact receipts more significantly in the first half of the fiscal year. Nonetheless, almost two-thirds of the total FY 1996 impact from these changes will occur after December 1995.



Monthly sales tax receipts in October were 30.1% higher than October of last year, led by a 63.8% increase in quarterly receipts. The increase is primarily due to a local option sales tax payment that was paid to local units of government in October 1994, but was not paid in October 1995. Adjusted for this timing factor, total year-to-date sales tax receipts were 6.0% higher than FY 1995, and receipts for the month of October were 13.1% higher than October 1995.

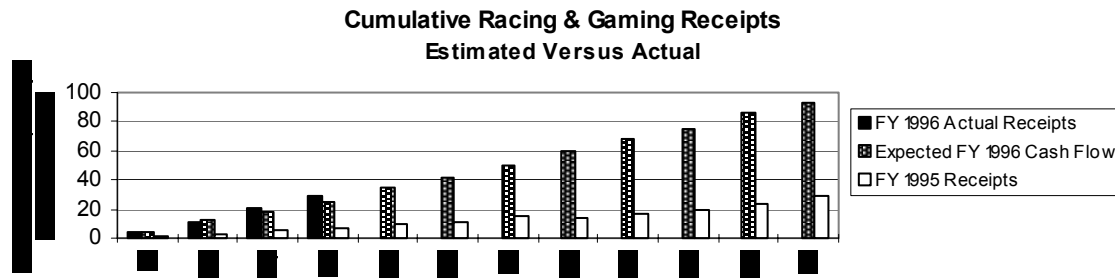
Corporate income tax receipts continue to exceed expectations, although the monthly growth rate has declined slightly. Total corporate income tax receipts in October were 10.1% higher than October 1994. The next two months will more accurately reflect business activity in 1994, and should provide better insight into how well the tax source will perform for the remainder of the fiscal year.

Franchise tax receipts continue to be a cause for concern. After finishing FY 1995 15.1% less than the previous year, franchise tax receipts in the first four months of FY 1996 were 28.0% lower than the same period in FY 1995. Franchise tax receipts for the month of October were 32.0% lower than October 1994. On May 26, 1995, the Governor signed SF 478, which was an attempt to curtail the use of investment subsidiaries. The Act was expected to increase FY 1996 receipts more than \$8.0 million. Data for the first four months indicates the legislation may not be entirely successful.

Receipts Compared to REC Estimate

The October REC FY 1996 estimate of 4.7% was exceeded by 3.9 percentage points. Adjusted for the timing factor in sales tax receipts, total General Fund receipts through October increased 7.9% over the same period in FY 1995, which exceeds the REC estimate by 3.2 percentage points. Assuming each month is expected to increase by the REC estimate, the estimate for the first four months was exceeded by approximately \$38.5 million. This should not necessarily be taken as an indication that the next three quarters will meet or surpass expectations. Through the first four months, 30.0% of the FY 1996 estimate has been received.

Racing and gaming receipts continue to be closely monitored. The October REC did not change the FY 1996 estimate of \$93.4 million, which is \$64.9 million (227.7%) higher than FY 1995 receipts. Receipts through October were \$22.4 million (320.3%) higher than the same period in FY 1995. If cash flow adjustments are considered, receipts through October were \$3.8 million more than anticipated. The following chart illustrates the expected cash flow for FY 1996 racing and gaming receipts.



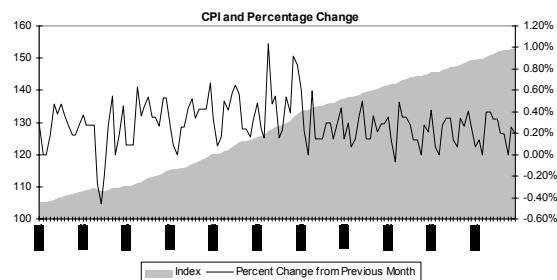
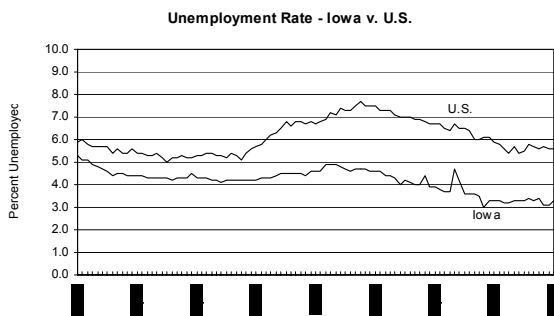
Obligations

School aid payments are to be paid in monthly installments, subject to the cash position of the State. The October installment for FY 1996 has been paid, and all payments are scheduled to be completed by June 1996.

Status of the Economy

The seasonally adjusted percent unemployed for the State increased two tenths of a percentage point in September to 3.3%. The U.S. unemployment rate in September held at August's level of 5.6%.

Consumer prices in September increased 0.2%. The Consumer Price Index (CPI) through August 1995 was 153.2 (1983=100), which is 2.5% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through September 1995.



We will be mailing special tax and economic performance reports on a monthly basis. Feel free to contact us for additional information or if you feel the report needs clarification.

GENERAL FUND RECEIPTS - PREVIOUS COMPARED TO CURRENT PERIOD					ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1995, through October 31, 1995, in millions of dollars					FY 95 Actual Compared to FY 96 REC Estimate			
	FY 1995	FY 1996	Year to Date % CHANGE	October % CHANGE	FY 1995 Actual	FY 1996 Estimate	% CHANGE	
Personal Income Tax	\$ 532.9	\$ 567.6	6.5%	13.5%	\$ 1,875.0	\$ 1,930.0	2.9%	
Sales Tax	347.9	377.9	8.6%	30.1%	1,147.3	1,188.6	3.6%	
Use Tax	61.1	70.3	15.1%	37.1%	196.0	210.0	7.1%	
Corporate Income Tax	69.7	85.7	22.9%	10.1%	268.7	290.0	7.9%	
Inheritance Tax	32.0	30.9	-3.2%	-22.1%	89.2	90.9	1.9%	
Insurance Premium Tax	0.2	0.1	-58.4%	1526.5%	102.1	101.0	-1.1%	
Cigarette Tax	31.7	31.6	-0.2%	-6.9%	93.3	94.0	0.8%	
Tobacco Tax	1.7	1.8	8.7%	6.0%	5.1	5.2	2.0%	
Beer Tax	4.7	4.6	-1.8%	-6.0%	12.4	12.5	0.8%	
Franchise Tax	11.6	8.4	-28.0%	-32.0%	28.9	29.4	1.7%	
Miscellaneous Tax	1.3	1.8	32.9%	-2.7%	1.0	0.9	-10.0%	
Total Special Taxes	\$ 1,094.8	\$ 1,180.8	7.9%	14.9%	\$ 3,819.0	\$ 3,952.5	3.5%	
Institutional Payments	35.3	32.9	-7.0%	3.4%	107.4	107.4	0.0%	
Liquor Transfers:								
Profits	7.0	7.0	0.0%	0.0%	26.4	26.5	0.4%	
7% Gross Revenue	3.0	3.0	0.0%	0.0%	9.0	9.0	0.0%	
Interest	2.7	4.4	61.2%	131.1%	17.3	13.0	-24.9%	
Fees	16.8	18.1	7.3%	14.0%	57.3	61.1	6.6%	
Judicial Revenue	15.8	8.3	-47.7%	-48.8%	48.4	40.1	-17.1%	
Miscellaneous Receipts	20.7	23.4	13.0%	10.0%	40.7	44.2	8.6%	
Racing and Gaming Receipts	7.0	29.4	320.3%	255.5%	28.5	93.4	227.7%	
TOTAL RECEIPTS	\$ 1,203.2	\$ 1,307.2	8.6%	15.8%	\$ 4,154.0	\$ 4,347.2	4.7%	

